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AMEMBASSY QUITO  
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STATE PLEASE PASS TO FEDERAL RESERVE

E.O. 12356: N/A  
TAGS: ECON, EPET, ENRG, EFIN, ETRD, EAGR, CO  
SUBJECT: COLOMBIAN ECONOMIC NOTES--MAY

REF: BOGOTA 7389

1. THE MONTH IN REVIEW:

THE ELECTION OF CESAR GAVIRIA AS COLOMBIA'S NEXT  
PRESIDENT ASSURES A CONTINUATION OF PRAGMATIC ECONOMIC  
POLICY MANAGEMENT. GAVIRIA, A PAST MINISTER OF FINANCE,  
DURING HIS CAMPAIGN STRONGLY SUPPORTED INCREASING  
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RELIANCE ON MARKET FORCES AND ENCOURAGEMENT OF THE  
PRIVATE SECTOR. OPERATIONS RETURNED TO NORMAL AT THE  
CERREJON COAL PROJECT AS A RESULT OF GOVERNMENT

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UNITED STATES DEPARTMENT OF STATE  
REVIEW AUTHORITY: OSCAR J. OLSON  
DATE/CASE ID: 30 OCT 2002 200201334

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INTERVENTION TO SETTLE THE STRIKE THERE. AFTER SEVERAL MONTHS RESPITE FROM GUERRILLA ATTACKS, THE CANO LIMON PETROLEUM PIPELINE WAS DYNAMITED TWICE DURING MAY. NEVERTHELESS, NATIONAL OIL PRODUCTION AVERAGED 425 THOUSAND B/D FOR THE FIRST FOUR MONTHS OF THE YEAR, COMPARED TO 406 THOUSAND B/D DURING THE SAME PERIOD IN 1989. MEANWHILE, THE MINISTRY OF MINES AND ENERGY HAS MADE SOME CONCESSIONS IN IMPROVING THE TERMS FOR ECOPETROL ASSOCIATION CONTRACTS WITH FOREIGN OIL COMPANIES, AND SEVERAL NEW CONTRACTS WERE SIGNED FOR THE FIRST TIME IN SEVEN MONTHS. APERTURA EVENTS INCLUDED THE FIRST "TARIFF AUCTIONS" FOR PREVIOUSLY RESTRICTED IMPORTS. COFFEE EXPORTS REMAINED STRONG, WITH HIGHER VOLUME LARGELY COMPENSATING FOR LOWER PRICES. DISTORTED PRESS COVERAGE OF FAVORABLE U.S. ACTION ON COLOMBIAN FLOWER EXPORTS EXACERBATED PUBLIC GRUMBLING ABOUT U.S. PROTECTIONISM. INFLATION ANXIETIES CONTINUED TO GROW AS THE CONSUMER PRICE INDEX FOR MAY SHOWED A 12-MONTH INCREASE OF 28.2 PERCENT.

## 2. CONTENTS:

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--TOYOTA BUYS INTO AUTO-ASSEMBLY PLANT  
--EXCHANGE CONTROLS TO BE RELAXED?  
--APRIL PETROLEUM PRODUCTION: 441 THOUSAND B/D  
--ECOLOGICAL DAMAGE FROM PIPELINE ATTACK  
--MOVEMENT ON PETROLEUM POLICY  
--SUBMARINE CABLE INAUGURATED  
--WELL, IT ISN'T EXACTLY A TAX  
--BANCO GANADERO STOCK OFFERING  
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--WORK TO BEGIN ON BARRANQUILLA DIKE  
--APERTURA: IMPORT AUCTIONS BEGIN  
--CONTROVERSY ON COFFEE INVENTORIES  
--MICRO-HYDROPOWER PLANTS PROVING SUCCESSFUL  
--MAY INFLATION: NO RELIEF  
--AND FROM THE FOLKS WHO BROUGHT YOU COLOMBIAN COFFEE...

## 3. TOYOTA BUYS INTO AUTO-ASSEMBLY PLANT

-----  
TOYOTA HAS ACQUIRED 25 PERCENT OF THE SOFASA-RENAULT AUTO ASSEMBLY FIRM FOR A REPORTED USD 15 MILLION, UNDER AN ARRANGEMENT TO INTRODUCE ASSEMBLY OF ITS CAMPER MODEL INTO THE COLOMBIAN MARKET. SOFASA PREVIOUSLY WAS

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100-PERCENT OWNED BY RENAULT. AT THE SAME TIME, ACCORDING TO A PRESS REPORT, SOFASA ANNOUNCED A 100 MILLION FRANC EXPANSION OF ITS RENAULT-LINE ASSEMBLY FACILITIES.

#### 4. EXCHANGE CONTROLS TO BE RELAXED?

TALK OF AN EASING OF COLOMBIA'S FOREIGN EXCHANGE CONTROLS IS IN THE AIR. THE POSSIBILITY IS BEING MENTIONED INCREASINGLY BY INCUMBENT GOVERNMENT OFFICIALS, AND PRESIDENT-ELECT GAVIRIA EXPLICITLY ENDORSED THE IDEA DURING HIS CAMPAIGN. UNDER THE FOREIGN EXCHANGE STATUTE WHICH HAS BEEN IN FORCE FOR THE PAST 22 YEARS, INDIVIDUALS ARE FORBIDDEN TO HOLD FOREIGN CURRENCY AND THE CENTRAL BANK NOMINALLY CONTROLS ALL FOREIGN EXCHANGE ENTERING OR LEAVING THE COUNTRY. ONE RESULT OF THIS LAW HAS BEEN THAT VIRTUALLY EVERY COLOMBIAN CITIZEN OF MEANS MAINTAINS A BANK ACCOUNT ABROAD (MOST OFTEN, IN THE UNITED STATES) TO PRESERVE ACCESS TO CONVERTIBLE FUNDS. PROPONENTS OF LIBERALIZATION ARGUE IN PARTICULAR THAT IT WOULD GREATLY FACILITATE BUSINESS TRANSACTIONS AND MIGHT ENCOURAGE

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RETURN OF COLOMBIAN CAPITAL ABROAD. IT IS DOUBTFUL THAT CONTROLS WILL BE ELIMINATED COMPLETELY IN THE NEAR FUTURE, BUT THE OUTLOOK SEEMS BRIGHT FOR THE INTRODUCTION OF SOME SCOPE FOR PRIVATE TRANSACTIONS IN FOREIGN CURRENCY.

5. APRIL PETROLEUM PRODUCTION: 441 THOUSAND B/D

-----  
OIL PRODUCTION BENEFITED IN APRIL FROM CONTINUED RESPITE  
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FROM GUERRILLA ATTACKS, EDGING UP TO 441 THOUSAND B/D FROM 438 THOUSAND B/D IN MARCH, AND BRINGING THE AVERAGE FOR THE FIRST FOUR MONTHS OF THE YEAR TO 425 THOUSAND B/D, COMPARED TO 406 THOUSAND B/D IN THE SAME PERIOD OF 1989. UNFORTUNATELY, THE RESPITE DID NOT CONTINUE INTO MAY. ALTHOUGH PRODUCTION STATISTICS ARE NOT YET AVAILABLE FOR MAY, TWO ATTACKS ON THE CANO LIMON PIPELINE OCCURRED--ONE SERIOUS (SEE BELOW)--WHICH UNDOUBTEDLY REDUCED OUTPUT FOR THE MONTH.

6. ECOLOGICAL DAMAGE FROM PIPELINE ATTACK

-----  
ANOTHER DYNAMITING OF THE CANO LIMON OIL PIPELINE BY THE ELN ON MAY 14 RESULTED IN THE SPILL OF OVER 14,000 BARRELS INTO THE ZAPATOSA SWAMPLAND, OFF THE MAGDALENA RIVER ON THE BORDER BETWEEN CESAR AND MAGDALENA DEPARTMENTS. THE FORTY-THOUSAND HECTARE ZAPATOSA IS CONSIDERED A KEY COMPONENT IN THE HYDROLOGY OF THE LOWER MAGDALENA. ONE COLOMBIAN SCIENTIST DESCRIBED THE SPILL

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AS ONE OF THE WORST ECOLOGICAL DISASTERS IN COLOMBIAN HISTORY. NEWS MEDIA REPORTED WIDESPREAD DEATH OF FISH AND WATERFOWL AND THE DISRUPTION OF THE LIVELIHOOD OF SOME 30,000 RURAL INHABITANTS OF THE AREA. ECOPETROL AND OCCIDENTAL ARE ENGAGED IN EMERGENCY CLEAN-UP EFFORTS, AND THE REAL EXTENT OF THE POLLUTION REMAINS TO BE ASSESSED, BUT IT IS FEARED THAT SERIOUS ECOLOGICAL DAMAGE MAY HAVE OCCURRED.

#### 7. MOVEMENT ON PETROLEUM POLICY

-----

THE MINISTER OF MINES AND ENERGY ON MAY 25 ISSUED A DECREE "CLARIFYING" THE DECREE OF LAST NOVEMBER WHICH RESULTED IN A HIATUS IN THE SIGNING OF NEW ASSOCIATION UNCLASSIFIED

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CONTRACTS BY FOREIGN OIL COMPANIES. THE NEW DECREE EASES THE CONTROLS WHICH THE EARLIER ONE HAD PUT ON THE SALE OR TRANSFER OF CONTRACT RIGHTS TO OTHER COMPANIES, BUT DOES NOT ADDRESS THE MOST FUNDAMENTAL PROBLEM--THE FORMULA FOR PRODUCTION SHARING. NEVERTHELESS, NEWS MEDIA REPORT THAT THREE NEW CONTRACTS HAVE BEEN SIGNED--THE FIRST SINCE LAST NOVEMBER.

EVEN SHOULD THE REMAINING POINTS OF CONTENTION BE COMPLETELY RESOLVED, COLOMBIA'S OIL FUTURE REMAINS CLOUDED. EXPLORATION DRILLING HAS DECLINED TO A LEVEL FAR BELOW THAT NEEDED TO SUSTAIN PRODUCTION OVER THE MEDIUM TERM. THE EMBASSY RECENTLY OBTAINED A COPY OF AN ARTHUR D. LITTLE ANALYSIS OF COLOMBIAN OIL POLICY, CONTRACTED BY OCCIDENTAL. THE STUDY, BASED ON CONDITIONS BEFORE/BEFORE THE NOVEMBER DECREE, CONCLUDED THAT THE TOTAL RETURN TO COLOMBIA FROM FOREIGN OIL COMPANY OPERATIONS PUT COLOMBIA AMONG THE TOP FIVE COUNTRIES IN THE WORLD IN TERMS OF ITS "TAKE." IT ALSO OBSERVED THAT IN VIEW OF THE TYPICALLY SMALL SIZE OF DISCOVERIES IN COLOMBIA, THE RISK VERSUS PROSPECTIVE REWARD BALANCE DID NOT SEEM VERY ATTRACTIVE.

#### 8. SUBMARINE CABLE INAUGURATED

-----

THE SUBMARINE TELECOMMUNICATIONS CABLE LINKING BARRANQUILLA TO MIAMI WAS PUT INTO SERVICE MAY 19, IN A CEREMONY WHICH INCLUDED A CALL PLACED BY PRESIDENT BARCO TO THE COLOMBIAN AMBASSADOR IN WASHINGTON, D.C. THE

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FIBER-OPTIC SYSTEM, WHICH ALSO CONNECTS BARBADOS,  
 TRINIDAD AND TOBAGO, JAMAICA, HAITI, THE DOMINICAN  
 REPUBLIC, AND PUERTO RICO, REPORTEDLY PROVIDES COLOMBIA  
 WITH 1,800 CIRCUITS AT THIS TIME, WITH AN EVENTUAL  
 EXPANSION TO 8,000 CIRCUITS.

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9. WELL, IT ISN'T EXACTLY A TAX

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REPEATING RECOURSE TO A CONTROVERSIAL FINANCING TACTIC  
LAST USED IN 1987, THE FINANCE MINISTRY IS PREPARING TO  
IMPLEMENT A PROVISION OF THE 1990 BUDGET LAW AUTHORIZING  
COMPULSORY PURCHASE OF GOVERNMENT BONDS BY ALL COLOMBIAN  
COMPANIES, IN THE AMOUNT OF 5 PERCENT OF EACH ENTITY'S  
1989 INCOME TAX LIABILITY. THE OPERATION IS EXPECTED TO  
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RAISE SOME 15 BILLION PESOS (USD 30 MILLION). THE FUNDS  
RAISED WILL CONTRIBUTE TO A SUPPLEMENTARY BUDGET  
APPROPRIATION FOR SECURITY FORCES PLANNED FOR MID-YEAR.  
(THE INITIAL BUDGET APPROPRIATIONS FOR THE VARIOUS  
AGENCIES TO BE BENEFITTED TOTALED 483 BILLION PESOS.)

TERMS HAVE NOT YET BEEN ANNOUNCED, BUT WILL PROBABLY BE  
SIMILAR TO THE LAST ISSUE: "ZERO-COUPON," TO BE REDEEMED  
AT 130 PERCENT OF NOMINAL FACE VALUE IN FIVE YEARS;  
TAX-FREE; AND NEGOTIABLE IN SECONDARY MARKETS. IF SO,  
WITH AN EFFECTIVE NOMINAL INTEREST RATE OF LESS THAN 6  
PERCENT COMPARED TO CURRENT MARKET RATES OF OVER 30  
PERCENT (AND AN INFLATION TREND OF AROUND 25 PERCENT),  
THE TAX-FREE PROVISION WILL BE OF LITTLE SOLACE TO THE  
BOND-HOLDERS.

## 10. BANCO GANADERO TO DOUBLE CAPITAL BASE

-----  
THE BANCO GANADERO (CATTLEMEN'S BANK) HAS ISSUED 400  
MILLION NEW SHARES AT PAR VALUE OF 10 PESOS EACH TO  
STRENGTHEN ITS CAPITAL BASE AND INCREASE RESOURCES FOR  
EXPANSION OF SERVICES. THE ISSUE--EQUIVALENT TO OVER  
USD 8 MILLION AT PAR VALUE--WILL DOUBLE THE PAID-IN  
CAPITAL OF THE BANK. THE OFFERING, WHICH COMMENCED MAY  
11, IS RESTRICTED TO EXISTING SHARE AND BOND-HOLDERS FOR  
THE FIRST 30 DAYS. THE GOVERNMENT REPORTEDLY IS  
EXPECTED TO PICK UP ABOUT 90 MILLION OF THE SHARES IN  
ORDER TO MAINTAIN ITS PRESENT 22 PERCENT HOLDING IN THE  
BANK. BANCO GANADERO HAS SHARED IN THE GENERAL RECOVERY  
OF THE COLOMBIAN FINANCIAL SECTOR, REGISTERING A PROFIT  
OF 5 BILLION PESOS (USD 13 MILLION) IN 1989.

## 11. WORK TO BEGIN ON BARRANQUILLA DIKE

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THE MINISTRY OF PUBLIC WORKS HAS ANNOUNCED THAT THE  
OPENING OF INTERNATIONAL BIDS FOR THE USD 22 MILLION  
BARRANQUILLA DIKE PROJECT WILL TAKE PLACE IN JUNE. THE  
PURPOSE OF THE DIKE IS TO REDUCE THE NEED FOR CONTINUAL  
DREDGING OF THE NAVIGATIONAL CANAL WHICH SERVES  
BARRANQUILLA PORT BY DIVERTING RIVERINE FLOW SO AS TO  
CREATE A SCOURING EFFECT.

12. APERTURA: IMPORT AUCTIONS BEGIN  
-----

THE FIRST TWO IMPORT AUCTIONS--DESIGNED TO "TARIFFIZE"  
THE PROTECTION OF GOODS PREVIOUSLY PROTECTED BY PRIOR  
IMPORT LICENSING REQUIREMENTS--UNDER THE APERTURA  
PROGRAM TOOK PLACE IN MAY. THE FIRST AUCTION WAS  
OVERWHELMINGLY SUCCESSFUL. IMPORTERS SEEKING  
AUTOMOBILES AND PARTS AND ELECTRONIC AND CONSUMER GOODS  
SWAMPED INCOMEX OFFICES TO SUBMIT BIDS ON THE PREMIUM  
THEY WERE WILLING TO PAY ABOVE THE EXISTING TARIFF. THE  
RESULTING RATES RANGED FROM 5 POINTS ABOVE TARIFF FOR  
TRACTORS TO 27 POINTS FOR 10-PERSON VEHICLES. THE  
SECOND AUCTION, OF CONSTRUCTION MATERIALS AND HOUSEHOLD  
PRODUCTS, DREW FEWER BIDDERS. INCOMEX ATTRIBUTED THE  
LACK OF INTEREST TO THE READY AVAILABILITY OF HOUSEHOLD  
GOODS SMUGGLED IN FOR SALE AT CONTRABAND CENTERS (SAN  
ANDRESITOS). A THIRD AUCTION ON MISCELLANEOUS GOODS  
OPENS JUNE 4, WITH A FOREIGN EXCHANGE ALLOCATION OF US  
22 MILLION, EQUAL TO 3 PERCENT OF NATIONAL PRODUCTION OF  
THE GOODS COVERED.

13. CONTROVERSY ON COFFEE INVENTORIES  
-----

DEBATE ON THE SIZE OF COLOMBIA'S COFFEE STOCKS HEATED UP  
AGAIN WITH THE BELATED PUBLIC RELEASE OF THE INDEPENDENT  
INVENTORY CONDUCTED LAST NOVEMBER BY THE OFFICE OF THE  
COMPTROLLER GENERAL OF THE REPUBLIC. WHILE THE  
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COMPTROLLER GENERAL'S FIGURE OF TOTAL STOCKS OF 6.2  
 MILLION BAGS AS OF NOVEMBER 30 ROUGHLY AGREED WITH THOSE  
 OF THE COFFEE FEDERATION, CONSIDERABLE DIFFERENCES ON  
 THE VOLUME OF EXPORTABLE COFFEE RESULTED FROM DIFFERENT  
 DEFINITIONS OF WHAT CONSTITUTES "EXPORT QUALITY."  
 ACCORDING TO THE COMPTROLLER GENERAL INVENTORY, ONLY  
 4.35 MILLION BAGS WERE OF EXPORT QUALITY. THE COFFEE  
 FEDERATION, IN ADDITION TO DISSENTING FROM THE  
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COMPTROLLER'S RIGID DEFINITION OF EXPORT QUALITY (E.G.,  
 EXCLUSION OF LOWER GRADES DESTINED FOR EXPORT TO NON-ICO  
 MEMBERS), OBSERVES THAT THE COUNT DID NOT INCLUDE STOCKS  
 DESTINED FOR INSTANT AND FREEZE-DRIED PROCESSING (BUT  
 FOR ULTIMATE EXPORT), NOR THOSE IN TRANSIT. CURRENTLY,

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ACCORDING TO THE FEDERATION, STOCKS "OF HIGH QUALITY" AMOUNT TO 3.3 MILLION BAGS, WITH ANOTHER 800 THOUSAND BAGS IN TRANSIT. THESE FIGURES DO NOT INCLUDE INVENTORIES OF LOWER QUALITY BUT EXPORTABLE COFFEE, NOR THOSE DESTINED FOR THE FREEZE-DRY PLANT.

THE CONTROVERSY IS MORE THAN A MERE STATISTICAL EXERCISE. COLOMBIA'S PRIVATE EXPORTERS, EAGER TO LOOSEN THE GRIP OF THE FEDERATION AND THEREFORE PROPONENTS OF A CONTINUATION OF A FREE COFFEE MARKET, ARGUE THAT FEDERATION "EXAGGERATION" OF EXPORT QUALITY STOCKS--AND THE DELAY IN THE RELEASE OF THE COMPTROLLER GENERAL'S REPORT--UNNECESSARILY DEPRESSED PRICES DURING THE PAST YEAR. MEANWHILE, ACCORDING TO PRELIMINARY FIGURES, COLOMBIAN EXPORTS IN MAY WERE 1.2 MILLION BAGS.

14. MICRO-HYDROPOWER PLANTS PROVING SUCCESSFUL

-----

DURING THE EARLY 1980'S SEVERAL HUNDRED MICRO-HYDROPOWER PLANTS WERE INSTALLED IN VARIOUS AREAS OF COLOMBIA IN AN EXPERIMENT IN BRINGING ELECTRICITY TO RURAL AREAS AT LOW COST. MORE RECENTLY, THE ATLANTIC COAST ELECTRICAL CORPORATION HAS DEPLOYED SEVERAL SUCH PLANTS IN THE SANTA MARTA AREA, WITH CAPACITIES OF 8 TO 23 KILOWATTS AT INVESTMENT COSTS OF FROM 750 THOUSAND TO 1.3 MILLION PESOS (USD 1900 TO 3300) PER KILOWATT. THE ECONOMICS OF THIS APPROACH TO SERVING LOW-POPULATION REGIONS HAS MOVED THE CORPORATION TO PROPOSE AN EXPANSION OF THE PROGRAM BY A TOTAL OF 400,000 KILOWATTS CAPACITY.

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15. MAY INFLATION: NO RELIEF

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THE CONSUMER PRICE INDEX INCREASED 2 PERCENT IN MAY, FOR A 12-MONTH INCREASE OF 28.2 PERCENT, COMPARED TO 28.0 PERCENT THE PREVIOUS MONTH. WHILE THE INFLATION RATE IS NOT ACCELERATING SHARPLY, THE TREND REMAINS IN THE WRONG DIRECTION AND THE FAILURE--SO FAR--OF OFFICIAL EFFORTS TO REVERSE IT THROUGH FISCAL AND MONETARY RESTRAINT IS CAUSING INCREASING CONCERN.

16. AND FROM THE FOLKS WHO BROUGHT YOU COLOMBIAN COFFEE....

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A DISTILLERY IN HUILA DEPARTMENT HAS SIGNED A CONTRACT WITH A U.S. DISTRIBUTOR FOR EXPORT OF A COFFEE-BASE

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LIQUOR UNDER THE BRAND NAME "KANOHA." THE CONTRACT ENVISIONS AN INITIAL VOLUME OF 130,000 CASES ANNUALLY, WITH EXPORT VALUE OF AROUND USD 900,000, WITH HOPES OF EXPANDING TO 1.5 MILLION CASES IN TEN YEARS. COLOMBIA ALREADY IS EXPORTING SMALL QUANTITIES OF TWO OR THREE OTHER COFFEE LIQUORS.

## 17. SUBSTANTIVE ECONOMIC REPORTS IN MAY:

MINISTRY OF DEVELOPMENT ON SUBSIDIES CODE SIGNING AND TROPICAL PRODUCTS; B-6988

GOC FINANCE MINISTER'S MEETINGS WITH USG OFFICIALS--OUR AGENDA (MONEY LAUNDERING--TIEA AND KERRY AGREEMENTS); B-6987

INTERNATIONAL COFFEE AGREEMENT: COLOMBIAN VIEWS/RECENT DEVELOPMENTS; B-7117

APRIL INFLATION: CPI UP 2.8 PERCENT; B-7332

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	AMAD-01	LAB-04	CTME-00	PM-01	EPA-04	ITC-01	OPIC-08
	PA-02	CEA-01	DOTE-00	OMB-01	STR-18	INRE-00	SEC-01
	FRB-01	OES-09	USIE-00	JUSE-00	SP-01	DOEE-00	SNP-01
	PRS-01	E-01	P-02	T-01	/092 W		

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 AMEMBASSY CARACAS

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AMEMBASSY QUITO  
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